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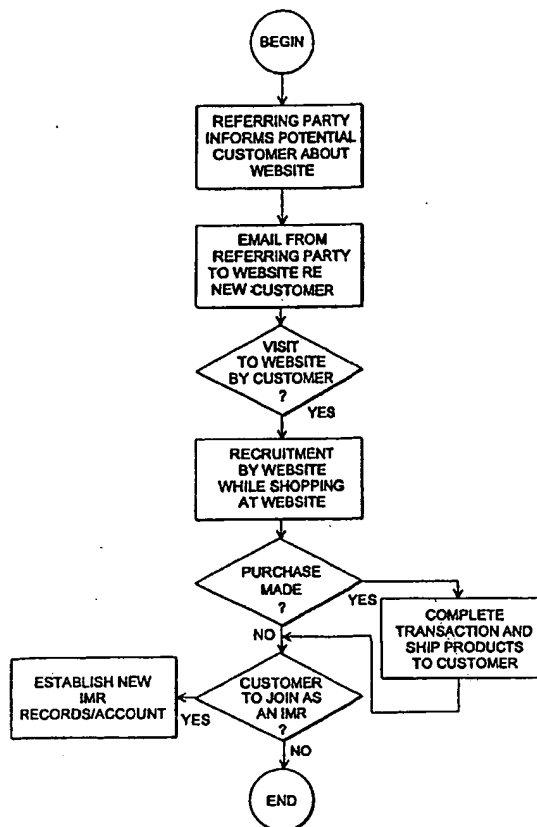
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## INTERNATIONAL APPLICATION PUBLISHED UNDER THE PATENT COOPERATION TREATY (PCT)

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<b>(21) International Application Number:</b> PCT/US99/28605 <b>(22) International Filing Date:</b> 2 December 1999 (02.12.99) <b>(30) Priority Data:</b> 60/110,673 2 December 1998 (02.12.98) US <b>(71) Applicant:</b> PINNACLE COMMUNICATIONS INTERNATIONAL, INC. [US/US]; 3751 San Jose Place, Suite 15, Jacksonville, FL 32257 (US). <b>(72) Inventor:</b> LEVINE, William, A.; 2994 Bernice Drive, Jacksonville, FL 32257 (US). <b>(74) Agent:</b> GARDNER, Arthur, A.; Gardner & Groff, P.C., Paper Mill Village, Building 23, 680 Village Trace, Suite 300, Marietta, GA 30067 (US).		<b>(81) Designated States:</b> AE, AL, AM, AT, AU, AZ, BA, BB, BG, BR, BY, CA, CH, CN, CU, CZ, DE, DK, EE, ES, FI, GB, GD, GE, GH, GM, HR, HU, ID, IL, IN, IS, JP, KE, KG, KP, KR, KZ, LC, LK, LR, LS, LT, LU, LV, MD, MG, MK, MN, MW, MX, NO, NZ, PL, PT, RO, RU, SD, SE, SG, SI, SK, SL, TJ, TM, TR, TT, UA, UG, UZ, VN, YU, ZA, ZW, ARIPO patent (GH, GM, KE, LS, MW, SD, SL, SZ, TZ, UG, ZW), Eurasian patent (AM, AZ, BY, KG, KZ, MD, RU, TJ, TM), European patent (AT, BE, CH, CY, DE, DK, ES, FI, FR, GB, GR, IE, IT, LU, MC, NL, PT, SE), OAPI patent (BF, BJ, CF, CG, CI, CM, GA, GN, GW, ML, MR, NE, SN, TD, TG).  <b>Published</b> <i>Without international search report and to be republished upon receipt of that report.</i>

**(54) Title:** INTERNET-BASED NETWORK MARKETING**(57) Abstract**

A multi-level marketing business method for use in connection with the Internet. The method includes the step of maintaining an Internet website for selling products and services directly to the consumer or potential customer. The novel multi-level marketing business method utilizes independent marketing representatives (IMRs) for informing a potential customer of the existence of the website and its address. When the potential customer visits the website, the website presents information to the potential customer for the purpose of recruiting the potential customer via the website to become an IMR himself (or herself). If the potential customer makes a purchase from the website, the first IMR is awarded a sales commission. If the potential customer becomes an IMR himself or herself, then the first IMR is awarded with future sales commissions for future sales attributable to the new IMR. Also, existing customers can refer new potential customers and thereby earn sales commissions for purchases by the new customers, and thereby can have the sales commissions applied against their own purchase to "zero out" their purchases.



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**INTERNET - BASED NETWORK MARKETING****CROSS REFERENCE TO RELATED APPLICATION**

5           The present non-provisional patent application is a continuation-in-part of U.S. Provisional Application Serial Number 60/110,673, filed on December 2, 1998.

**TECHNICAL FIELD**

10           The present invention relates generally to the sale of goods and services over the Internet and in particular relates to network marketing sales over the Internet.

**BACKGROUND OF THE INVENTION**

15           Traditional network marketing, also known as personal marketing or direct marketing, generally can be considered to be any method of marketing that allows independent sales representatives to enlist new sales representatives and to draw commissions from the sales by those new recruits. Network marketing has been used to sell a wide variety of products and has been very successful in many  
20 instances. The best known network marketing companies include Amway Corporation and Mary Kay Cosmetics. Various products have been marketed in this way, such as cleaning products (Amway), cosmetics (Mary Kay Cosmetics), and long-distance telephone service (Excel Communications and US Sprint).

          Traditional network marketing can be a very effective means for selling and  
25 distributing products. This is so because the customer can be educated in person about a product, which is more direct than the use of television and print advertisements. Also, direct sales can allow for actual product testing and evaluation by the potential consumer. Moreover, the impact of testimonials by consumers or by the distributor is enhanced. Also, in comparison to other methods  
30 of distributing products, network marketing independent sales representatives can give the consumer higher levels of attention and service.

          One major drawback to traditional network marketing is the reliance on independent sales representatives of independent marketing representatives (IMR's) to enlist new IMR's. The enrollment of new IMR's at a level beneath the existing

IMR's creates multiple levels in the network marketing structure. Persons whom an IMR enrolls are referred to as their "downline" IMR's. If a downline IMR also enrolls IMRs, this creates additional levels in the structure. This type of arrangement requires that the IMR be an effective salesman, not only for selling products, but for  
5 selling other consumers on the idea of becoming IMRs themselves. Many people find this aspect of network marketing unpleasant and awkward. This is a substantial problem, slowing the growth of the network marketing company. Another drawback to traditional network marketing is that it is totally dependent on distributor (IMR) performance.

10 Accordingly, it can be seen that a need yet remains for a network marketing arrangement which does not require the IMR to personally try to sell other people on the idea of becoming IMRs themselves. A need also exists for a network marketing approach which is not totally dependent on the performance of IMRs. It is to the provision of such that the present invention is primarily directed.

#### SUMMARY OF THE INVENTION

Briefly described, in a first preferred form of the present invention, it comprises a multi-level marketing business method for use in connection with the Internet. The method includes the step of maintaining an Internet website for selling  
20 products and services directly to the consumer or potential customer. The novel multi-level marketing business method utilizes IMRs for informing potential customers of the existence of the website and its address. When the potential customer visits the website, the website presents information to the potential customer for the purpose of recruiting the potential customer via the website to  
25 become an IMR himself (or herself). If the potential customer makes a purchase from the website, the first IMR is awarded a sales commission. If the potential customer becomes an IMR himself or herself, then the first IMR is awarded future sales commissions for future sales attributable to the new IMR.

30 Preferably, the step of informing a potential customer comprises sending an electronic message to the potential customer. Most preferably, this takes the form of sending an e-mail message to the potential customer. Alternatively, the potential

customer can be simply called on the telephone or otherwise reached in any convenient manner.

Preferably, the fact that a first IMR has contacted the potential customer is communicated to the network marketing company. This can be accomplished by sending an electronic message to the Internet website (or to an operator thereof) advising that the first IMR has contacted the potential customer and informed the potential customer of the existence and address of the website. This fact is recorded for future reference for properly crediting the first IMR with purchases made by the potential customer or, if the potential customer becomes an IMR himself or herself, with potential sales of potential customers downline therefrom.

This link between the first IMR and the potential customer preferably is stored for future reference in a computer system to maintain the link between the first IMR and the customer. This link is then used to ensure that the first IMR receives proper credit.

In one manner of carrying out the invention, the sales commission owed to the first IMR is payed out in money. In another manner of carrying out the invention, in order to be eligible to become an IMR, the potential IMR must first sign up for a monthly fee-generating service and the sales commission is paid out at least in part in credits against charges owed by the first IMR for the monthly fee-generating service. For example, one can require that in order to become an IMR, the person must first sign up for long-distance telephone service or Internet-access service from the network marketing company. These are good examples of recurring fee-generating services that many people already need and use, thus providing a ready vehicle for encouraging the IMR to try to earn sales commissions to "zero out" the monthly service charge otherwise owed by the IMR.

In another preferred form, the present invention comprises a customer-based marketing business method for use in connection with the Internet. The method includes the step of maintaining an Internet website for selling products and services directly to the consumer or potential customer. The novel multi-level marketing business method utilizes existing customers for informing potential new customers of the existence of the website and its address. If the potential customer makes a

purchase from the website, the referring existing customer is awarded a sales commission in the form of a credit against the existing customer's purchases. In this way, the existing customer can "zero out" his bill. This provides a strong motivation for existing customers to rapidly expand the customer base, which

5 benefits both the company and the existing customers.

In addition to an IMR-based network marketing approach and a customer-based network marketing approach as described above, one can combine these two approaches. In a combined IMR and customer-based network marketing program, IMRs can earn credits and cash for referral sales; while existing customers can earn

10 credits to "zero out" their own bill.

The inventions just described solve one of the major problems of known network marketing methods. Namely, the present invention allows individuals to take advantage of their networking capability (i.e., their ability to contact people that they may know or know of for potential sales) without requiring that they be

15 effective in (or even directly engaged in) enlisting other individuals to become IMRs. This represents a major step forward. No longer does a person have to himself try to sell someone else on the idea of becoming, in effect, a salesman. Thus, a major drawback of known network marketing methodologies has been eliminated. Moreover, in addition to the ordinary incentive for an IMR of potentially earning cash

20 payments for sales commissions, the present invention preferably provides a secondary motivation for remaining active in network marketing. Namely, by requiring the IMR to take a service from the network marketing company for a monthly service charge and allowing the IMR to earn sales commissions to potentially "zero out" the monthly service charge, an additional motivation is

25 provided for remaining active and engaged in referring potential customers to the website. Importantly, a strong motivation is provided to existing customers to refer new potential customers.

### **BRIEF DESCRIPTION OF THE DRAWING FIGURES**

**Fig. 1** is a schematic, functional block diagram depicting Internet-based network marketing according to a preferred form of the invention.

**Fig. 2** is a schematic, functional block diagram of an Internet-based network marketing arrangement in a more particular form of the invention.

### **DETAILED DESCRIPTION OF THE PREFERRED EMBODIMENTS**

The present invention elegantly solves what has been a problem holding back network marketing by intelligently marrying some elements of traditional network marketing with Internet-based technologies.

This elegant solution to the problem is best understood first by reference to **Fig. 1** and **Fig. 2** which give a good visual overview of the invention and then by reference to a narrative description. Accordingly, what follows is an overview of the figures and then a narrative of the business methodology.

#### **Overview of Figure 1 and Figure 2.**

##### **Step 1: Informing the Potential Customer**

The IMR (or existing customer) informs the potential customer about the existence and address of the website. This can be accomplished by e-mail, mail, phone, in-person, etc.

##### **Step 2: Linking the IMR to the Potential Customer**

The IMR (or existing customer) notifies the company via e-mail of the potential customer he (she) has referred to the website. This can be done after, before, or at the same time as when the IMR makes the referral. Also, the referring party could simply provide the e-mail address of the referral and the network marketing company could originate the referring party's referral e-mail and record the link between the referring party and the potential new customer. This latter approach requires only one e-mail by the referring party.

**Step 3: Home Page**

Individuals (potential customers) desiring to make a purchase enter the service provider's Home page.

**5 Step 4: Customer Identification**

Customers identify themselves as a first time customer, previous customers and/or Independent Marketing Representative (IMR).

**Step 5: Verification**

10 Customer information is validated so they can be categorized to shop and make a purchase.

**Step 6: Looking for Purchase**

Customers browse for product descriptions, pricing, and availability.

15

**Step 7: Making a Purchase**

Once the product, program, or service has been chosen, the customer is notified as to the gross purchase price, amount of credits available, and the net purchase price.

**20 Step 8: Payment**

Once the product, program, or service has been chosen, customers are given the option of paying by credit card, electronic transfer, and/or application of credits.

**Step 9: Verification of Purchase**

25 An e-mail receipt for verification of the purchase is then provided with a transaction number for future tracking.

**Step 10: Application of Credits**

30 Once the purchase has been completed, paid for, and received, a percentage of the amount of the purchase is applied to the referring party as credits and commissions are paid to members of the marketing system.

**THE INTERNET-BASED NETWORK MARKETING PROGRAM  
AS COMMERCIALY IMPLEMENTED**

The assignee of the present invention has commercialized the invention as of the time of the filing of this non-provisional U.S. patent application. The company's Internet-based network marketing program is operating (at present with a limited number of products) on a state-of-the-art virtual shopping mall, which can be accessed at [www.pinnacleld.com](http://www.pinnacleld.com). The commercialized version of the invention rewards both IMRs and existing customers for referral sales.

The Internet-based network marketing program is designed to market products and services over the Internet. The Internet-based network marketing program allows customers to earn credits against purchases by referring other customers to the program operator's products and services. The program also integrates direct to the customer network marketing techniques with Internet buying to create the opportunity for IMRs (independent marketing representatives or IMRs) not only to earn credits against purchases but also to earn income. Customers who refer other customers to the company's products and services (such as Internet access, long-distance and Internet-based network marketing) receive credits against their Internet-based network marketing purchases in an amount equal to a specific percentage of purchases made by the customers who they referred to the company. These credits may be used to "zero out" the entire cost of purchases made by the referring customer. The referring customer may also elect to become an IMR and to earn cash payments in addition to the credits. The customers referred to the company will also learn about the opportunity to earn credits and the opportunity to earn cash payments by becoming an IMR.

The Internet-based network marketing method according to the present invention lends itself to a company "partnering" with various suppliers in a strategic way. For example, a company can simply buy and stock a vendor's products for sale through the company's virtual shopping mall or can provide an Internet link to the vendor's website to offer the vendor's entire line of products (and entire inventory). This has advantages for both. The partnering business methodology combines the best qualities of a direct to consumer sales and marketing system,

with the efficiency and instant communication features of modern technology and the Internet to deliver a profit producing business process to replace the capital-intensive, loss-generating practices of many high-growth E-commerce companies. The partnering model separates various sales and marketing activities into individual profit centers and then implements solutions using the most efficient combination of technology and personal interaction. This approach gives a company the ability to truly customize services for particular products, partners, or customer groups, while insuring that it receives fair compensation for the services that it provides. Specifically, the partnering model provides strategic services for a defined percentage of gross sales, which significantly improves current cost and revenue models of associate and partner businesses. The partnering model also creates an opportunity for associate and partner businesses to expand revenue from current customers, recognize revenue from prospects that choose not to become a customer, and attract new customers without expensive up-front advertising or promotion.

20

25

**CLAIMS****I claim:**

1. A multi-level marketing business method comprising the steps of:  
maintaining an internet website for selling products thereat;  
5 informing a potential customer, through a first IMR, of the existence of the website and its address, wherein the first IMR is part of a hierarchical sales force having a plurality of levels;  
when the potential customer visits the website, presenting recruiting information at the website for recruiting the potential customer via the website to  
10 become an IMR;  
if the potential customer makes a purchase from the website, awarding the first IMR who informed the potential customer a sales commission;  
if the potential customer becomes an IMR, awarding the first IMR with future sales commissions for future sales that are attributable to the new IMR;  
15 wherein in order to be eligible to become an IMR, the potential IMR must first enroll in a monthly fee-generating service at a monthly service charge; and  
wherein the sales commission payable to the first IMR is first applied to the first IMR's monthly service charge to potentially zero out the monthly service charge and any excess over the amount of the monthly service charge is paid out as a  
20 commission in money or purchasing credits.
2. A multi-level marketing business method as claimed in Claim 1 wherein the step of informing a potential customer comprises sending an electronic message to  
25 the potential customer.
3. A multi-level marketing business method as claimed in Claim 2 further comprising the step of forwarding from the first IMR to an operator of the Internet website a message linking the IMR with the potential customer for the purpose of giving the first IMR proper credit.  
30

4. A multi-level marketing business method as claimed in Claim 3 further comprising the step of recording that the potential customer has been informed by the first IMR.

5 5. A multi-level marketing business method as claimed in Claim 1 wherein the monthly fee-generating service is long-distance telephone service.

6. A multi-level marketing business method as claimed in Claim 1 wherein the monthly fee-generating service is an Internet-access service.

10

7. A multi-level marketing business method comprising the steps of:  
maintaining an Internet website for selling products;  
informing a potential customer, through a first IMR, of the existence of the website and its address;

15 when the potential customer visits the website, recruiting the potential customer via the website to become an IMR;

if the potential customer makes a purchase from the website, awarding the first IMR a sales commission; and

20 if the potential customer becomes an IMR, awarding the first IMR with future sales commissions for future sales attributable to the new IMR.

8. A multi-level marketing business method as claimed in Claim 7 wherein the step of informing a potential customer comprises sending an electronic message to the potential customer.

25

9. A multi-level marketing business method as claimed in Claim 8 further comprising the step of forwarding from the first IMR to an operator of the Internet website a message linking the first IMR with the potential customer for the purpose of giving the first IMR proper credit.

30

10. A multi-level marketing business method as claimed in Claim 9 further comprising the step of recording that the potential customer has been informed by the first IMR.

5 11. A multi-level marketing business method as claimed in Claim 7 wherein the sales commission is paid out in money.

10 12. A multi-level marketing business method as claimed in Claim 7 wherein the sales commission is paid out at least in part in credits against charges owed by the first IMR.

13. A multi-level marketing business method as claimed in Claim 7 wherein the IMRs are part of a multi-level hierarchical sales force.

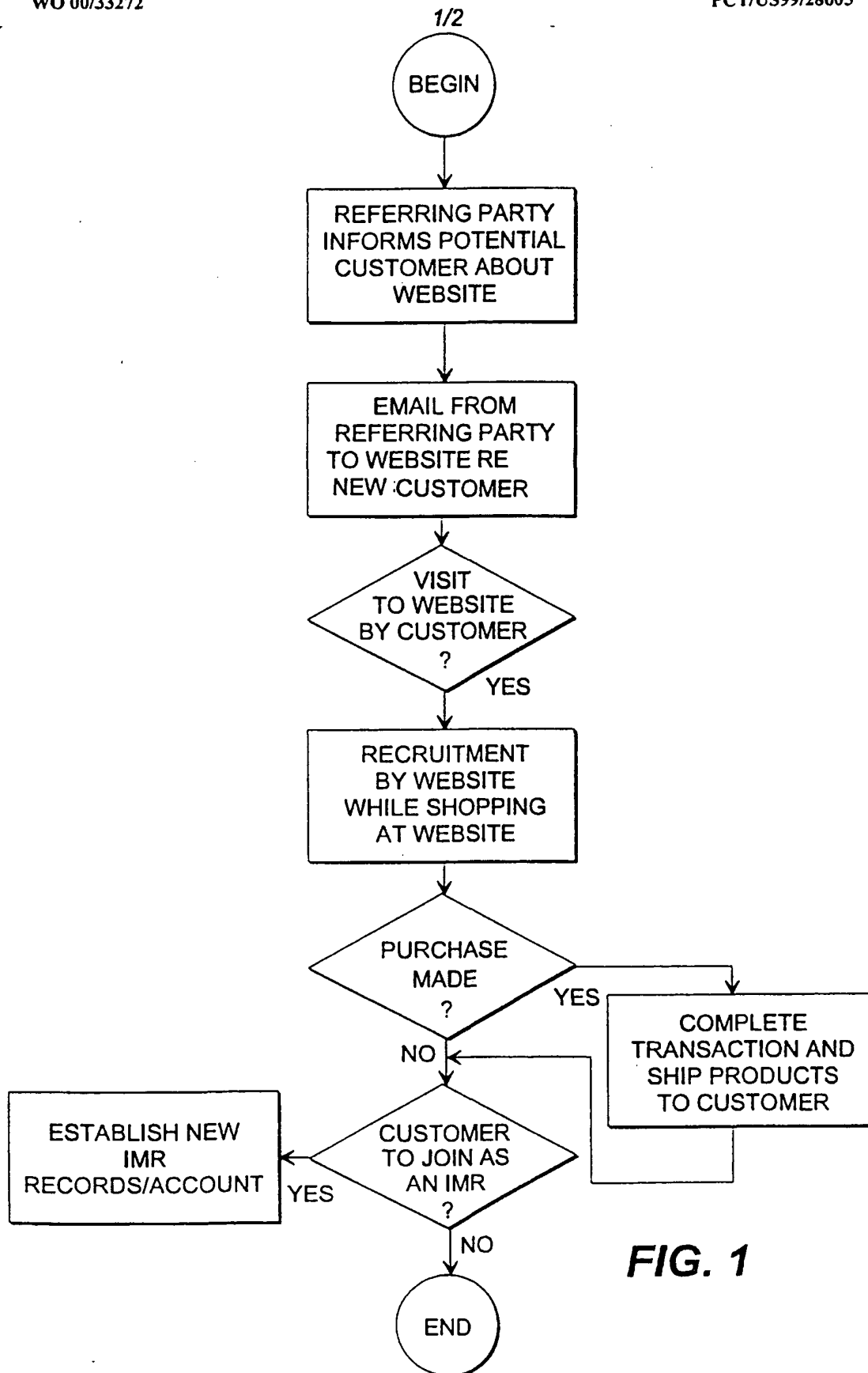
15 14. A multi-level marketing business method as claimed in Claim 7 wherein in order to be eligible to become an IMR, the potential IMR must first sign up for a monthly fee-generating service.

20 15. A multi-level marketing business method as claimed in Claim 14 wherein the monthly fee-generating service is long-distance telephone service.

16. A multi-level marketing business method as claimed in Claim 14 wherein the monthly fee-generating service is Internet-access service.

25 17. A multi-level marketing business method as claimed in Claim 14 wherein the sales commission payable to the first IMR is first applied to the first IMR's own monthly service charges owed in an effort to zero out the monthly service charges and any excess is paid out as a commission in money.

18. A network marketing business method comprising the steps of:  
maintaining an Internet website for selling products;  
informing a potential customer, through an existing customer, of the  
existence of the website and its address;
- 5 if the potential customer makes a purchase from the website, awarding the  
existing customer a sales commission as a credit against purchases by the existing  
customer to potentially zero out the existing customer's charges.
19. A network marketing business method as claimed in Claim 18 wherein the  
10 step of informing a potential customer comprises sending an electronic message to  
the potential customer.
20. A network marketing business method as claimed in Claim 19 further  
comprising the step of forwarding from the existing customer to an operator of the  
15 Internet website a message linking the first existing customer with the potential  
customer for the purpose of giving the existing customer proper credit.
21. A network marketing business method as claimed in Claim 20 further  
comprising the step of recording that the potential customer has been informed by  
20 the existing customer.
22. A network marketing business method as claimed in Claim 18 further  
comprising the step of recruiting the potential customer, via the website, to become  
an IMR.

**FIG. 1**

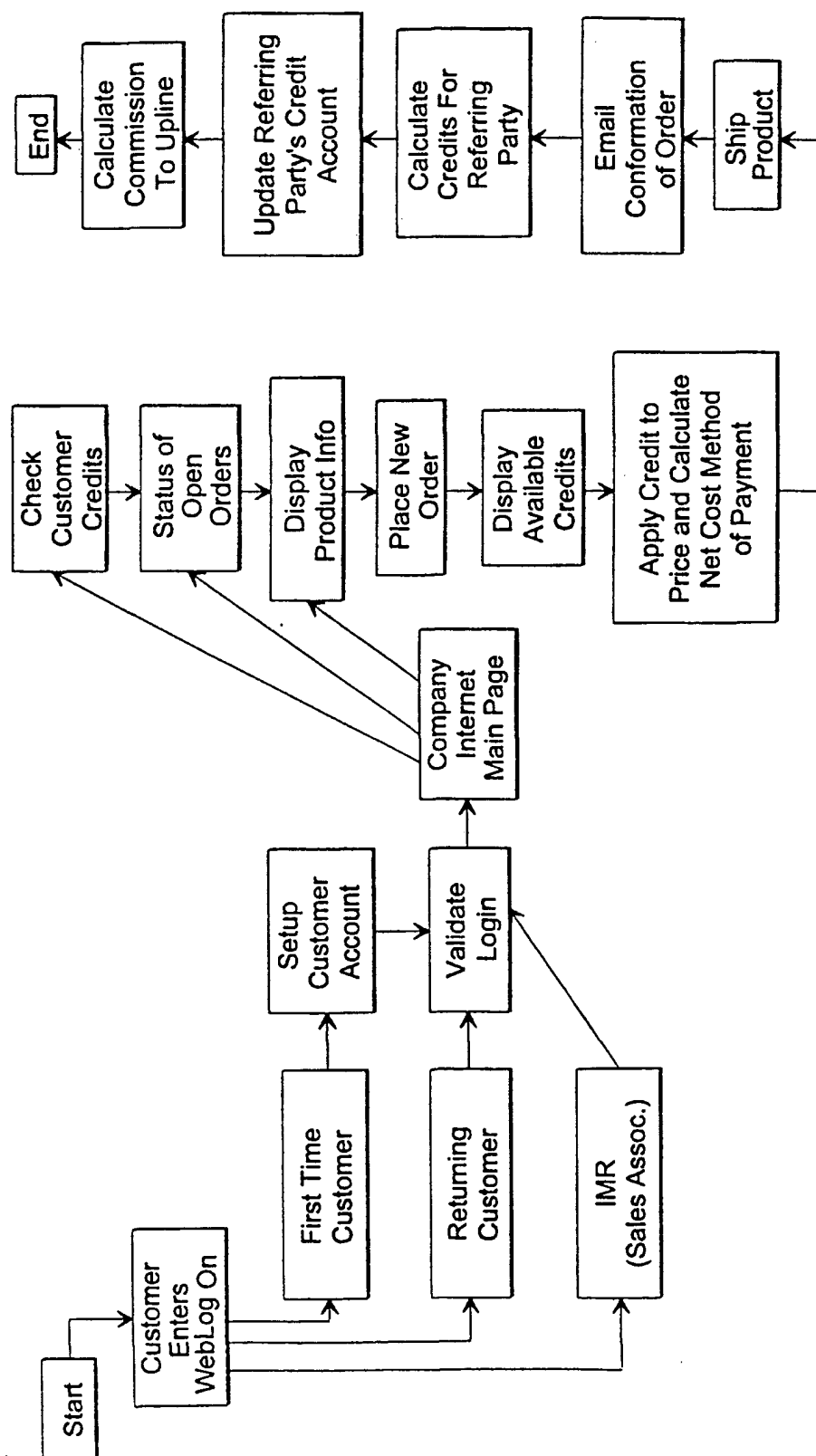


FIG. 2

# INTERNATIONAL SEARCH REPORT

International Application No.

PCT/US 99/28605

## A. CLASSIFICATION OF SUBJECT MATTER

IPC 7 G07F19/00 G06F17/60

According to International Patent Classification (IPC) or to both national classification and IPC

## B. FIELDS SEARCHED

Minimum documentation searched (classification system followed by classification symbols)

IPC 7 G06F G07F

Documentation searched other than minimum documentation to the extent that such documents are included in the fields searched

Electronic data base consulted during the international search (name of data base and, where practical, search terms used)

## C. DOCUMENTS CONSIDERED TO BE RELEVANT

Category *	Citation of document, with indication, where appropriate, of the relevant passages	Relevant to claim No.
Y A	WO 96 36926 A (RECOGNITION GROUP LIMITED ;MCDONALD SIMON PAUL (NZ); SELMAN BRIAN) 21 November 1996 (1996-11-21) page 14, line 10 -page 15, line 2	1-4, 7-13, 18-22 5,6, 14-17
Y A	EP 0 844 577 A (SHELL ALLYN M) 27 May 1998 (1998-05-27)  column 2, line 14 - line 20  claims 8-10,14	1-4, 7-13, 18-22 5,6, 14-17



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# INTERNATIONAL SEARCH REPORT

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International Application No

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Patent document cited in search report	Publication date	Patent family member(s)	Publication date
WO 9636926 A	21-11-1996	AU 5847396 A	29-11-1996
EP 0844577 A	27-05-1998	NONE	